The Role of ASEAN in Economic Cooperation and Development
—— The Case of Cambodia ——

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Abstract

The main purpose of this study is to explain the relation between the ASEAN Economic Cooperation and economic situation in Cambodia. At first, to make clear the ASEAN Economic Cooperation for today, AFTA (ASEAN Free Trade Area), AIA (ASEAN Investment Area), and AICO (ASEAN Industrial Cooperation) will be explained, and economic situations in Cambodia, particularly about the investment and tourism, will be made clear. Thereafter, the comprehensive analysis will be implemented to use those facts. The role of ASEAN in Cambodia including *ASEAN WAY* mechanism will be examined in this paper.

1. Introduction

The civil war continued in Cambodia for about 20 years from 1970's, and the socio-economical base was destroyed. After the civil war terminated by the Paris Peace Agreement in 1991, UNTAC (United Nations Transitional Authority in Cambodia) was established in 1992 and Cambodia walked a way of the economic revitalization. However, GDP per capita of Cambodia was 756 US dollar in 2008, when compared with neighboring countries of 4,117 US dollar in Thailand, 918 US dollar in Lao PDR and 1,053 US dollar in Vietnam, we can recognize that it was lower than these countries and influence of the civil war was big (See Table 1).

When Cambodia participated to ASEAN in 1999, in this time, ASEAN implemented the economic cooperation of the new stage different from 1970–1980's. Since 1970's, ASEAN implemented PTA (Preferential Tariff Arrangement), AIC (ASEAN Industrial Complementarity), and AIP (ASEAN Industrial Projects), those ware called *The import substituting collective industrialization* by Shimizu [1998]. Those schemes based on the report of ECAFE were substantially failed as a result of the conflict of interest between member countries. It means that the theory of economic integration, which combined with Neoclassism and Constructivism, could not apply to ASEAN.1) But It was fact that the failure of the industrial cooperation generated *ASEAN Way* in those implementation.

The new movements of ASEAN Economic Cooperation started in 1985 when *Plaza Accord* was agreed. After this agreement, the appreciation of the yen and weak dollar progressed rapidly, it promoted the multi-nationalization of Japanese

Table 1: ASEAN population, territory and economy (2008)

Country	Total land area (sq km)	Total population (thousand)	GDP at current market prices (US$ Mn)	(US Million PPP $)	GDP per capita (US$)	(PPP$)
Brunei Darussalam	5,765	397	14,147	19,133	35,623	48,180
Indonesia	1,860,360	228,523	511,174	901,139	2,237	3,943
Malaysia	330,252	27,863	222,057	383,059	7,970	13,748
Philippines	300,000	90,457	166,773	317,215	1,844	3,507
Singapore	710	4,839	182,103	238,765	37,629	49,338
Thailand	513,120	66,482	273,729	546,320	4,117	8,218
ASEAN 6	2,497,087	418,562	1,096,254	2,405,632	3,273	5,747
Cambodia	181,035	14,656	11,082	27,986	756	1,909
Lao PDR	236,800	5,763	5,289	13,868	918	2,406
Myanmar	676,577	58,510	27,182	68,203	465	1,166
Vietnam	331,212	86,160	90,701	242,697	1,053	2,817
CLMV	1,094,412	78,929	134,253	352,753	813	2,137
ASEAN 10	4,435,830	583,651	1,504,236	2,758,385	2,577	4,726

Source: ASEAN Secretariat [2010]

1) Yoshikawa [2009], pp. 76－77.

firms, and gave ASEAN the increasing inflows of FDI (Forign Direct Investment) from Japan (See Table 2). Thus changing in international economic situation made ASEAN leaders changed the point of view about foreign capital, and started to cope with new ASEAN Economic Cooperation.

2. The ASEAN Economic Cooperation through Trade and Investment

2.1 AFTA

ASEAN Economic Cooperation transformed to correspond to the change of international economic situations in 1990's. In the 4th ASEAN Summit of January 1992, ASEAN adopted *the Singapore Declaration of 1992*, and concluded the *Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area*. ASEAN agreed about not only the formation of AFTA by CEPT but also the organization strengthening for it in *the Singapore Declaration in 1992*.

Regarding organization strengthening, ASEAN decided to reinforce the ASEAN Secretariat, and to install the Senior Economic Officials Meeting (SEOM) that unified existing five councils.[2] In addition, member countries elected one representative cabinet ministrial level and set up the AFTA Council organized by the representatives. The AFTA Council and SEOM were in charge

Table 2: FDI inflows from Japan to ASEAN (1985−1995)

US$ Millions

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Indonesia	408.0	250.0	55.0	586.0	631.0	1105.0	1193.0	1676.0	813.0	1759.0	1645.6
Malaysia	79.0	158.0	163.0	387.0	673.0	725.0	880.0	704.0	800.0	742.0	590.0
Philippines	61.0	21.0	72.0	134.0	202.0	258.0	203.0	160.0	207.0	668.0	735.6
Singapore	339.0	302.0	494.0	747.0	1902.0	840.0	613.0	670.0	644.0	1054.0	1215.1
Thailand	48.0	124.0	250.0	859.0	1276.0	1154.0	807.0	657.0	578.0	719.0	1271.4
ASEAN5	935.0	855.0	1034.0	2713.0	4684.0	4082.0	3696.0	3867.0	3042.0	4942.0	5457.7

Note: Compiled from OECD Statistics: Online Database

2) Five councils are COFAF, COIME, COTT, COFAB, and COTAC.

of various decisions about CEPT.

In CEPT, the tariff reduction was based on Tariff Lines[3)] by a lump (Article 2), and annual reduction rate and a schedule were decided (Article 3). In the safeguard measures, the Dispute Settlement Mechanism was not installed unlike WTO and EC, and member countries was allowed to exercise the import safeguards by self-discretion (Article 6). In addition, exception items and the temporary exclusion were accepted (Article 2). Such a system design follows the flexibility of *the ASEAN Way*.

The AFTA Council had been critically important for CEPT. In the 3rd AFTA Council meeting in December 1992, IL (Inclusion List) was divided into FT (Fast Track) and NT (Normal Track).[4)] In the 4th AFTA Council meeting in October 1993, the council decided the start time of the tariff reduction of each ASEAN countries.[5)] In the 5th AFTA Council meeting in September 1994, the council decided the transition of TEL (Temporary Exclusion List) to the IL and the shortening reduction schedule of the IL.[6)] In addition, in the 8th AFTA Council meeting in 1995, UAP (Unprocessed Agricultural Products) was founded in the TEL.[7)] Furthermore, in the 12th AFTA Council meeting in October 1998, the council decided shortening the schedule again.[8)] When Vietnam (1994), Lao PDR and Myanmar (1997), and Cambodia (1999) joined in ASEAN, the AFTA Council decided the schedule of they four countries (CLMV) quickly each time.

Thus the schedule of CEPT has been shortened based on the decision of the AFTA Council many times in this way. The draft amendment decided in the 12 th AFTA Council meeting was agreed in the 6th ASEAN Summit held in December 1998. SBM (*the Statement on Bold Measures, Ha Noi, Viet Nam, December 1998*) and *the Ha Noi Plan of Action* settled in the meeting were reflected by the CEPT schedule.

Although the rapid institutionalizing related CEPT and schedule shortening had been decided as had stated above, it was related with the change of the international economic situations in 1990's: (1) The development of the regional

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3) Defined by HS Treatment.
4) ASEAN Secretariat [1994], pp. 41 – 42.
5) Ibid., pp. 43 – 44.
6) ASEAN Secretariat [1999]a, pp. 74 – 76.
7) ASEAN Secretariat [1999]a, pp. 83 – 84.
8) Ibid., pp. 133 – 139.

integration in Europe and North-South America. (2) Rapid economic growth and increasing FDI inflows to China. (3) Asian Financial Crisis in 1997. Central agendas of the 6th ASEAN Summit meeting in December 1998 were about economic revitalization for the Asian Financial Crisis and financial policy. In the 31st AMM (ASEAN Ministers Meeting) held in July of the front of it, the Minister of Foreign Affairs already recognized that the expansion of intra-trade in ASEAN and development of CEPT were important as an engine for economic revitalization.[9] Therefore, such rapid institutionalizing was a necessary phenomenon.

2. 2 The Classification of the CEPT Products

2. 2. 1 IL (Inclusion List)

As explain above, in the AFTA council, this classification was divided into NT and FT.[10] In the schedule of NT, the products which existing tariff rate was equal to or less than 20% would be reduced to the range of 0–5% by 2003. As for the products which existing tariff rate was more than 20% was divided into two phases, the first, it would be reduced to 20% by years 1998–2003, and afterwards to 0–5% by years 2005–2010. In the revisions of 1994, reduction to the range of 0–5% was shortened in the products which was equal to or less than 20% existing tariff rate from 2003 to 2000. In addition, as for the products which existing tariff rate was more than 20%, reduction to 20% was fixed by 1998, and reduction to 0–5% was shortened by 2008.

In the schedule of FT, the products which existing tariff was equal to or less than 20% would be reduced to the range of 0–5% by 2000, and existing tariff was more than 20% would be reduced to 0–5% by 2003. In the revisions of 1994, reduction to the range of 0–5% was shortened in the products which was equal to or less than 20% existing tariff rate from 2000 to 1998. In addition, as for the products which existing tariff rate was more than 20%, reduction to 0–5% was shortened by 2000.

In the revisions of SBM and *the Ha Noi Plan of Action*, the classification of NT or FT and the division of the 20% border were abolished. And, in

9) ASEAN Secretariat [1999]a, p 55.
10) The first schedule of IL is ASEAN Secretariat [1994], p 41, The revision in 1994 is ASEAN Secretariat [1999]a, p 75, and the revision of SBM is ASEAN Secretariat [1999]c, p 29.

ASEAN6,[11] minimum 90% the CEPT products would be reduced to 0−5% by 2002. As for the maximization of the number of the reduction products to 0−5%, the time limit was set in ASEAN6 by 2000, Vietnam by 2003, Lao PDR and Myanmar by 2005. In addition, the maximization of the number of the reduction products to 0%, the time limit was set in ASEAN6 by 2003, Vietnam by 2006, Lao PDR and Myanmar by 2008.[12] About CEPT in CLMV, it was agreed in 16 th AFTA Council meeting held in September 2002 that 80% of CEPT products would be reduced to 0-5% in Viet Nam by 2003, Lao PDR and Myanmar by 2005, and Cambodia by 2007.[13]

2. 2. 2 EL (Exclusion List)

Because CEPT was needed flexibility, various EL was installed. GE (General Exceptions List) was the classification that CEPT was not applied to permanently. GE was included the products related to security, life of a human being and the animals and plants, the arts and sciences, the history, and archeological value (Article 9).

TEL was defined as the products which judged to be shoddy to apply CEPT (Article 2), and it would be shifted step by step to IL. As had stated above, UAP also was included in TEL. UAP was defined as the products which changed at the minimum with a simple process (Article 7).

SL (Sensitive List) was applied a lot to non-processing agricultural products, prescribed by the SHSP Protocol (Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products). SL would be transferred step by step to IL, and ASEAN6 should have started the transition at least by 2003 and completed it by 2010. In addition, the time limit to complete in CLMV would be in Vietnam by 2013, in Laos and Myanmar by 2015, in Cambodia by 2017.

About HSL (Highly Sensitive List) prescribed the same as SL by SHSP Protocol, ASEAN6 was reprieved the limit of transition to IL until 2005, and Malaysian, Indonesia, the Philippines applied the rice products to this classification. As for the tariff rate, Indonesia and Malaysia were decided 20%,

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11) In this paper, ASEAN6 are Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand. CLMV are Cambodia, Lao PDR, Myanmar, and Vietnam.
12) ASEAN Secretariat [1999]c, p 9, p 29.
13) ASEAN Secretariat [2002], pp. 56−57.

and Philippines was decided with a framework of CEPT.

The CEPT was enforced by the classifications and schedules as above. By the present, *the Declaration of ASEAN Concord II* in October 2003 and VAP (*Vientiane Action Programme*) in November 2004, and AEC Blueprint (*Declaration on the ASEAN Economic Community Blueprint*) in November 2007 were adopted. The formation of AFTA has been carried out comprehensively by CEPT. ASEAN decided to form ASEAN Community including AEC by 2015. The comprehensive actions will be performed based on a new plan like an AEC Blueprint in the future.[14)]

2.3 AIA

In the 5th ASEAN Summit held in Bangkok in December 1995, ASEAN was decided to cope with the AIA foundation.[15)] In the 28th AEM held in Jakarta in September 1996, the expression, called AIA, was used for the first time, and AEM ordered ASEAN secretariat and SEOM for the preparations for report related with AIA foundation, and revised the investment protocol agreed in 1987.[16)] Because ASEAN mentioned the expectation for the WTO Ministerial Meeting held later in the meeting, it was clear that the establishment of WTO had an influence on actions of ASEAN about the AIA foundation.[17)] Finally, In 30th AEM held in Philippine Makati in October 1998, AIA Agreement (*the Framework Agreement on the ASEAN Investment Area*) was concluded, and the setting of the AIA council was decided.[18)]

It was the next four provisions mainly that the AIA agreement mentioned:. (1) The investment policy, rules, measures, and the transparency security of the procedure. (2) The abolition of the procedure and systems to disturb direct investment inflows to ASEAN. (3) The movement of capital and person (expert work forces). (4) Technology transfer. Further more, in the AIA agreement,

14) ASEAN Concord II is ASEAN Secretariat [2003], pp.9-13, VAP is ASEAN Secretariat [2005], p 21-50, AEC Blueprint is ASEAN Secretariat [2009]b, pp.21-65.

15) ASEAN Secretariat [1999]a, p 5.

16) Protocol to Amend the Agreement among the Governments of Brunei Darussalam, the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore, and the Kingdom of Thailand for the Promotion and Protection of Investments Jakarta, 12 September 1996, ASEAN Secretariat[1999]a, pp.192-194.

17) ASEAN Secretariat [1999]a, p 99.

18) ASEAN Secretariat [1999]c, pp.119-132.

National Treatment and the abolishment of the sectoral limitation were given to the investment from intra-ASEAN countries by 2010, and from extra-ASEAN countries by 2020, and it was the contents which it was conscious of the FDI promotion from the outside area.[19] In addition, AIA was placed as one of the important scheme and the economic revitalization for the Asian Financial Crisis 1997 by *the Ha Noi Plan of Action* same as AFTA and AICO.[20]

The AIA agreement was revised immediately by SBM taken out for the same period. The abolition of the sectoral limit was shortened in ASEAN6 from 2010 to 2003, in Myanmar from 2015 to 2003, in Vietnam from 2015 to 2010, and in Lao PDR from 2013 to 2010.[21] Furthermore, in the 4th AIA Council held in September 2001, the main objective of the argument was about competition against NAFTA, EU, and FTAA, the time to open for the non-AIA countries was decided in ASEAN6 from 2020 to 2010, in CLMV from 2020 to 2015. Thus AIA adopted a collective reduction method based on schedule setting, temporary exclusion measures same as AFTA foundation by CEPT. However, it was clear that ASEAN made much of AFTA than AIA because the AFTA linked with ASEAN Summit directly whereas decision by the AIA council was nominated for AEM and SEOM.

2. 4 AICO

In the 26th AEM held in Chiang Mai in 1994, the present states of existing AIJV and BBC were generalized, the importance of closer cooperation between ASEAN-CCI and SEOM was confirmed, and the future industrial cooperation was discussed.[22] In addition, in 27th AEM in September 1995, the continuation of AIJV and BBC was confirmed,[23] along this flow, in 1996, ASEAN agreed BAAICO (*Basic Agreement on the ASEAN Industrial Cooperation Scheme*) was suggested by ASEAN-CCI. With this agreement, AIJV and BBC were lapsed (Article 12),[24] and AICO was placed for the succeeding scheme of those.

In AICO scheme, Each company participates with minimum two countries,

19) Ibid., pp. 226－238.
20) Ibid., p 11.
21) Ibid., pp. 30－31.
22) ASEAN Secretariat [1999]a, pp. 60－64.
23) Ibid., pp. 65－68.
24) ASEAN Secretariat [1999]b, p 190.

those companies could take benefits by the application of the AICO. According to Article 6 and Article 7 of BAAICO which were operative rules, intra-ASEAN companies (more than 30% of local equity) could be applied preferential tariff rate of 0–5% when this company imports raw materials, intermediate products and finished products (except primary products) from the other ASEAN countries. When this company was approved, the company was required to satisfy the standard called "the AICO arrangement" and must apply to the ASEAN secretariat.[25)]

AICO was update of AIJV and the BBC. However, because AICO incorporated preferential tariff system, AICO was different from those schemes that had been managed with a PTA. Therefore the PTA substantially lapsed by this scheme. According to BAAICO, because AICO was aimed for FDI inflows to intra-ASEAN and had consistency with AFTA and AIA, we would be able to consider AFTA, AIA, and AICO as one package. AICO was placed as one of the important scheme and the economic revitalization for the Asian Financial Crisis 1997 by *the Ha Noi Plan of Action* same as AFTA and AIA. But the recognitions of the importance for AICO of ASEAN leaders were weaker than AFTA and AIA because the special council for AICO did not install it, and the window was ASEAN-CCI and the ASEAN secretariat.

3. ASEAN Economic Cooperation and Cambodia

3. 1 The Present State of ASEAN Economic Cooperation

In the 13th ASEAN Summit held in Singapore in November 2007, AEC Blueprint was adopted. AEC Blueprint includes many plans to promote the comprehensive economic integration that advanced more. AEC Blueprint contained the past ASEAN Economic Cooperation in a part of the ASEAN economic integration. However, because the current ASEAN Economic Cooperation was carried out mainly on the implementation of AICO and foundation of AFTA and AIA, influences and present conditions of these must be clarified. In 1994 when tariff reduction by the CEPT was started, Indonesia, Malaysia, and Philippines had a lot of the number of TEL and UAP products different from other ASEAN

25) Ibid., 188–189.

countries, thus situation produced the concerned for the possibility to achieve the plan came from the experience of failures on past ASEAN Economic Cooperation (see Table 3). However, through the management by the AFTA Council, the transition of EL included TEL to IL progressed.

Table 3: The number of the CEPT products (1994)

	Brunei Darussalam	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
NT	3,618	4,539	5,710	3,432	3,473	5,146	25,918
FT	2,377	2,819	2,985	960	2,183	3,531	14,855
TEL	236	1,648	621	694	1	122	3,322
UAP	66	324	637	395	0	401	1,823

Source: ASEAN Secretariat [1995]

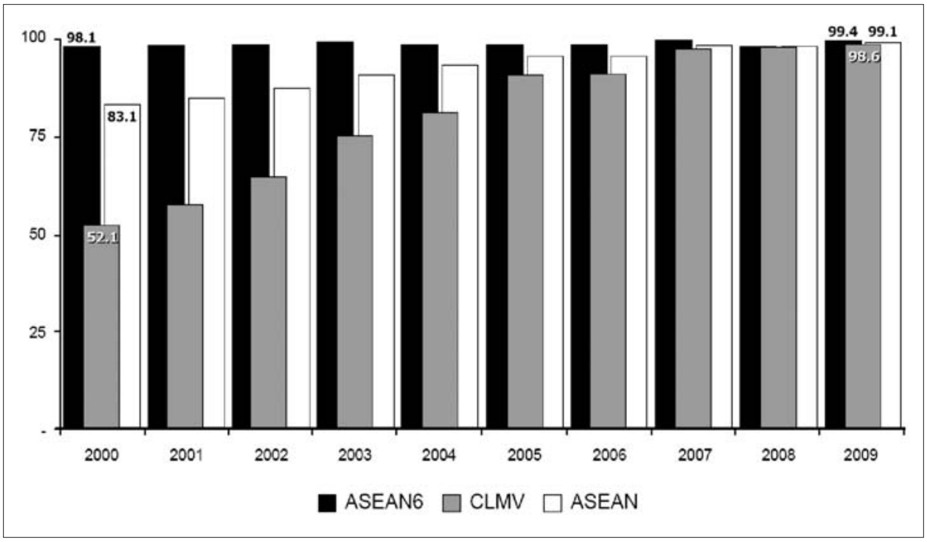
According to the report in the 22nd AFTA council held in Singapore in August 2008, 95.55% of products in the whole ASEAN received the IL application of CEPT in August 2008, and reduction to 0－5% completed 95.46% of those. In addition, the IL products which completed reduction to 0－5% were 89.05% in ASEAN6, 99.7% in CLMV. And, the average of tariff rates in CEPT declined to 3.69% from 4.4% of 2007 in CLMV, to 1.32% from 1.59% of 2007 in ASEAN6 at the end of 2008. Furthermore, the IL products which had tariffs removed was 84.94% in ASEAN6, and 31.03% in CLMV (See Figure 1 and 2).[26] About situations of trade and investment, intra-trade of ASEAN6 which was about 20% in 1995 increased to about 27% in 2008, and FDI inflows to ASEAN6 increased to about two times in 2008 since 1995 (See Figure 3 and 4). Because of these, the benefit and influence from the AFTA formation appears in ASEAN intra-trade and investment.

In the foundation of the AFTA, the CEPT products transition to the IL and tariff reduction progressed steadily in this way. However, the Transition of HSL to IL, the removal of NTBs, and relaxation of rules of origin are left as a problem in future. It will be important that we watch how those problems are handled by the management of AEC Blueprint in future.

26) ASEAN Secretariat [2009]c, p 19.

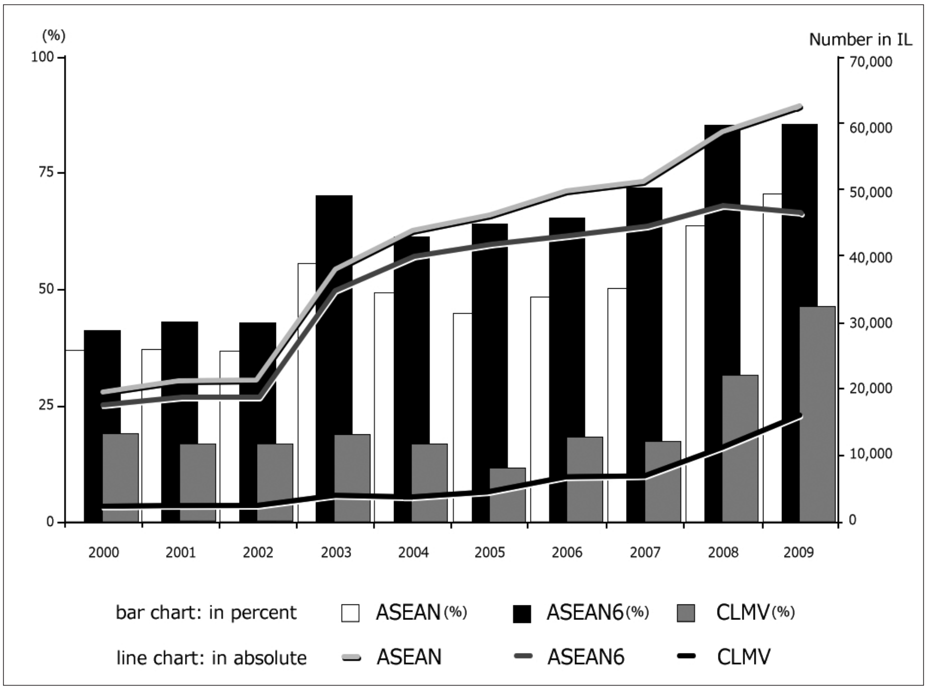
Figure 1: Percent of tariff lines in the CEPT Inclusion List (IL)

(%)



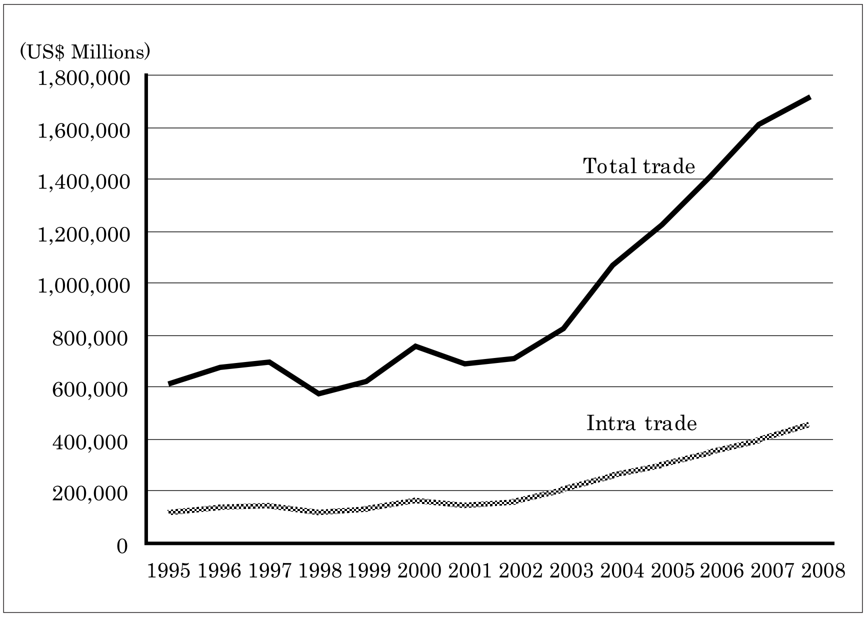
Source: ASEAN Secretariat [2010]

Figure 2: Percent of items in the CEPT Inclusion List (IL) with 0 tariff



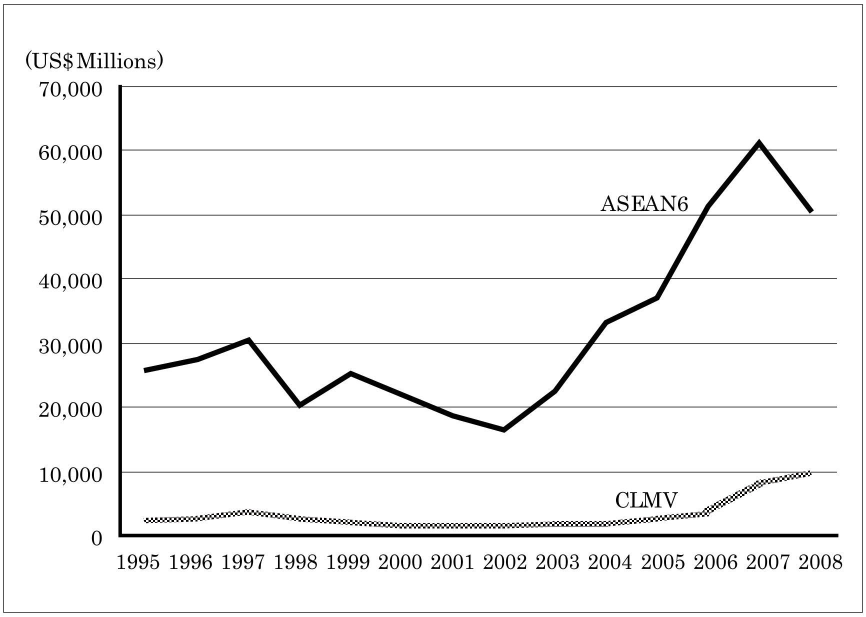
Source: ASEAN Secretariat [2010]

Figure 3: ASEAN total trade, and intra-trade (1995−2008)



Source: Based on data of ASEAN Secretariat [2009]

Figure 4: FDI inflows into ASEAN6 and CLMV (1995−2008)



Source: Based on data of ASEAN Secretariat [2009]

3. 2 Investment and Tourism in Cambodia

In Cambodia of 1990's during a revival stage, NPDR (National Programme to Rehabilitate and Develop Cambodia) and SEDPI (Socio-Economic Development Plan: I) which was the first five year socio-economic development plan in 1996-2000 were devised. As for NPDR, SEDPI captured poverty reduction as a long-term problem, whereas NPDR aimed to build a national foundation as the economic revitalization. In addition, SEDPII (Socio-Economic Development Plan: II) which was the second five year socio-economic developments plan in 2001-2005 and NPRS (National Poverty Reduction Strategy) which was PRSP (Poverty Reduction Strategy Paper) in Cambodia was devised. They evaluated poverty reduction for the most important problem and put the important sector for macroeconomy, governance, gender, health, and advocated the investment promotion in the private sector.[27] In addition, Cambodia joined not only ASEAN in 1999 but also GSM (Greater Mekong Subregion) since 1994, and coped with economic development in trade and the investment positively.[28] Because of these, agendas of trade and investment, which are related with ASEAN Economic Cooperation, are very important for Cambodia. For Cambodia attached importance to private investment in particular, expansion of intra-trade and the inflow of FDI by the AFTA and AIA foundation will be big subject of concern.

According to the investment approvals of Cambodia in 2002-2007 years, the private investment increased in all industry, the growth in the sector of industry and service were particularly remarkable. Furthermore, when there was the influence from the World Economic Crisis in 2008, both of foreign and domestic investment decreased, the investment in other sectors decreased too, but only the investment in the service sector showed about 10% growth. In addition, only the tourism sector showed a plus growth in that for 2007-2008 years. Recently, domestic investment and FDI tend to flow a lot into the tourism sector (See Table 3).

About the Cambodian tourism sector where investment is prosperous, the number of the visitors to Cambodia increased rapidly since 2003 (See Table 4), and the users of the airplane in particular increased. The share of the airport to

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27) JICA [2001], pp. 43-44.
28) About the relation between AFTA and GSM, see Jayant Menon [2005].

Table 4: Investment approvals in Cambodia by origin and sector (2002–2007)

US$ Millions

	2002	2003	2004	2005	2006	2007
Origin						
Cambodia	94	222	141	384	1,145	704
Foreign	162	118	233	807	1,485	1,095
Others (including unclassified)	0	0	0	0	0	34
Sector						
Agriculture	16	0	12	28	536	95
Industry	49	125	175	681	808	324
Services	190	216	187	481	1,286	1,415
Tourism	47	135	120	119	130	698
Other services	143	81	67	362	1,156	717
Total	256	341	374	1,191	2,631	1,833

Note: Author made (with data of IMF [2009])

Table 5: Visitor Arrivals and Tourism in Cambodia (2002–2007)

	2002	2003	2004	2005	2006	2007
Total visitor arrivals	786,524	701,014	1,055,202	1,421,615	1,700,041	2,015,128
Arrivals by airplane	522,978	455,972	626,121	856,521	1,027,064	1,296,513
Phnom Penh airport	320,187	269,674	316,748	416,396	427,389	535,262
Siem Reap airport	202,791	186,298	309,373	440,125	599,675	761,251
Oter types of arrivals	263,546	245,042	429,081	565,094	672,977	718,615
Country of residence (Phnom Penh airport arrivals only)						
Total visitors	320,187	269,674	316,748	416,396	427,389	535,262
Asia and Pacific	174,345	167,714	185,631	220,239	263,662	344,083
Europe	79,246	60,846	73,065	108,658	90,747	110,363
North, South, and Central America	64,415	39,763	55,546	73,700	71,365	78,657
Africa and Middle East	2,181	1,351	2,506	13,799	1,615	2,159

Source: IMF [2009]

use shifts from Phnom Penh airport to Siem Reap airport clearly. And the shift to Siem Reap airport links increasing of airport users and the number of the total visitors. In other words, the increasing of visitors to Siem Reap pulled the inflow of people to Cambodia. Because Siem Reap has a lot of tourism resources represented by Angkor Wat, it is very likely that the tourism sector is the one of the factors of this phenomenon. In late years the investment in Cambodia and the tourism sector spread rapidly. And those two elements link each other. The domestic policies of Cambodia to attach great importance to private investment has consistency with the purpose of AFTA and the AIA. And AEC Blueprint has the promotive article of the economic cooperation in the sector of tourism in ASEAN region, and the benefit that Cambodia gets in future from ASEAN Economic Cooperation may be big.

However, by the fall of international demand as a result of the World Economic Crisis in 2008, the Cambodian export industry took negative influences. Cambodia should improve the bias of the economic structure to enable sustained development.

4. Conclusion

The economic integration has a function to let movement of people, goods, and capital and money liberalize in this region. According to the theory of free trade which was researched by many Neoclassical economist — represented by Viner [1950] who made clear the effect of the free trade and Balassa [1961] who proposed hypothesis of five phases of economic integration, the free trade is useful in the long term, however, there is negative effect by the effect of trade diversion. Although the possibility of influences from local content restrictions will remain, in AFTA that did not make a customs union, the trade liberalization does not generate the disadvantage of the trade diversion effect if based on a theory of the Neoclassical Economics.

In addition, from the viewpoint of domestic industry protection, Cambodia has an economic structure which depend on the production of low value-added goods such as textiles and may be exposed to competition with the ASEAN countries by the free trade. As had already commented above, ASEAN aimed to promote of the FDI inflows by expansion of intra-ASEAN trade. The growth of the FDI inflows to intra-ASEAN was bigger than the growth of the intra-ASEAN trade (See Figure 3, Figure 4, and Table 3). Because the free trade theory of the Neoclassical Economics cannot apply to recent ASEAN Economic Cooperation, AFTA that aimed to promote the FDI inflows may be profitable for Cambodia which attaches great importance to investment of private sector.

In conclusion, the mechanism to enforce the ASEAN Economic Cooperation is symbolize by *ASEAN Way*. This factor have availability to explain the economic integration in developing countries because it can be expressed as uncertainly of the economy in developing countries. The existence of *ASEAN Way* in various actions of ASEAN will make the fragile countries be easy to participate to ASEAN and the economic cooperation. At least, in this means, Cambodia have latecomer's advantage. In addition, this advantage may spillover to the domestic policy making.

In this paper, the analysis of the trade in Cambodia was not enough. This point will be conquered in future.

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